

EMPLOYEE QUESTIONS

Q&A



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What is the *Commuter Choice* Program?

Commuter Choice refers to recent changes in the Internal Revenue Code [(26 USC 132(f)] which permit your employer to offer you a tax-free benefit to commute to work by methods other than driving alone.

Why is there a *Commuter Choice* Program?

Excessive automobile use takes a toll on the environment. *Commuter Choice* offers employees a *tax-free* fringe benefit to commute on public transit or in vanpools. The goal of *Commuter Choice* is to make it as economical for employees to use mass transit as it is to drive. Reducing the number of cars on the road improves air quality, reduces traffic congestion, conserves energy, and saves wear and tear on roadways.



Can I receive the benefit in addition to or instead of salary?

Yes. There are several ways in which you may receive a transit or vanpool benefit. First, your employer *may* elect to provide you the benefit in addition to your current salary. The benefit would be

free of all payroll and federal income taxes to you. Your employer will have to decide whether to offer this benefit in addition to your income.

Second, your employer *may* permit you to have up to \$65 per month taken out of your paycheck before taxes to pay towards the actual cost of commuting on transit or in vanpools. You would not pay federal income or payroll taxes on the amount of the benefit. Up to \$780 a year of your wages or salary would be treated as a tax-free benefit rather than as taxable income. And, in 2002, the amount eligible to be treated as a tax-free benefit will go up to \$100 per month or up to \$1,200 a year. Your W-2 would reflect a reduction equal to the amount of the benefit. This option is known as the “pre-tax” benefit. Many employers prefer this option because the employee pays the cost. You still save on your payroll and federal income taxes. This helps you to travel smarter and stretch your budget at the same time

Third, your employer may share the cost of commuting with you. Your employer may elect to pay for a portion of your tax-free transit benefit and allow you to pay a portion of the costs by having your share taken out of your paycheck before taxes. At the present time, the total maximum amount eligible as a tax-free benefit is \$65 per month of actual costs, even when you share the costs.

Can I simply pay my own commuting costs and ask my employer to reimburse me?

In areas where vouchers that can be exchanged for transit media or vanpool services are readily available, your employer may *not* reimburse you for the cost of transit. See IRS rules governing section 132(f) benefits for a definition of “readily available.” In most cases, your employer must either provide to you vouchers or bus passes, tokens, farecards, etc., instead of cash reimbursement. In areas where such vouchers do not exist or where the transit provider does not accept vouchers, your employer may reimburse you for your transit and vanpool costs up to the \$65 limit, using either corporate funds or your pre-tax benefit, or a combination of both as discussed above. See the *Voucher and Pass Program Directory* for voucher and pass programs in your area.

If I receive a parking benefit, can I convert it into a transit or vanpool benefit?

Yes. If your employer is currently providing parking benefits, and you and some of your co-workers would like the option of converting that benefit to cover your costs for transit and vanpools, your employer may offer you the option to “cash out” the parking benefits. For example, if you receive a free parking space valued at \$135 and your employer is willing to con-

vert some portion of his or her costs into additional compensation for you, you could take up to \$65 per month in employer-sponsored, tax-free transit benefits. Only the remaining \$70 would be taxable. You could also use that \$70 to cover any remaining commuting costs not covered by the \$65. You could accept the full \$135, which would be taxable but could be used for other commuting alternatives. Although such costs do not qualify as “tax-free” commuting expenses, some people choose to use the additional income for expenses related to alternative commuting, such as walking shoes, bicycles, fees, fuel and auto maintenance for car-pools and roller blades.



Cash out works best in situations where employers acquire parking through third party arrangements. Since such employers are already making a cash outlay to cover the cost of the parking, it is easy to convert the expense to additional compensation for employees. If your employer does not pay out funds for your parking space, or is unable to generate revenue from the space, this option is less likely to be offered.

What vanpools qualify for this benefit?



A vanpool, or “commuter highway vehicle” must have a seating capacity of at least 6 adults (not including the driver) and at least 80% of the mileage use must be for purposes of transporting employees in connection with travel between their homes and places of employment. For these commuting trips, the number of employees transported must be at least one-half of the adult seating capacity of the vehicle, excluding the driver.

Can I receive both a transit and vanpool benefit?

Yes. However, the maximum tax-free amount is \$65 per month. This same limit applies whether these benefits are provided separately or in combination with one another. For example, you could receive a \$40 vanpool benefit and a \$25 transit pass for a monthly total of \$65, but could not receive a \$50 vanpool benefit and a \$30 transit pass, since the total of \$80 would exceed the tax-free limit of \$65. Any amount over \$65 would not be tax-free.

Does the \$65 limit increase over time?

Yes. With annual changes in the cost of living, the tax-free amount could increase. And, in January 2002, the eligible tax-free amount will increase automatically to \$100 per month. If any increases occur before that time, IRS will announce them. If your employer is paying the cost, the decision to increase your benefit rests with the employer. If you are participating in a pre-tax benefit program or a combination program,



your employer may permit you to increase your benefit to cover actual costs up to the \$100 monthly limit.

Where can I obtain further information?

On the Web, see **<http://www.fta.dot.gov>** and select *Commuter Choice* for further guidance. Check with your employer's human resources office to see if your employer is already providing a transit or vanpool benefit. If not, then contact your local transit agency to determine if they have a program to sell transit vouchers or passes to employers for distribution to employees. Access to the home pages of more than 100 transit agencies can be found at the **<http://www.fta.dot.gov>** web site under "Links." You may also find the name of your transit agency at the American Public Transit Association website (**<http://www.apta.com/govt/legis/passcont.htm>**)



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